



## CALIFORNIA BOARD OF ACCOUNTANCY

2000 EVERGREEN STREET, SUITE 250  
 SACRAMENTO, CA 95815-3832  
 TELEPHONE: (916) 263-3680  
 FACSIMILE: (916) 263-3675  
 WEB ADDRESS: <http://www.dca.ca.gov/cba>

Attachment 3

Board Agenda Item II.A

March 16-17, 2006

DEPARTMENT OF CONSUMER AFFAIRS  
 CALIFORNIA BOARD OF ACCOUNTANCY

**DRAFT**

**MINUTES OF THE  
 January 19-20, 2006  
 BOARD MEETING**

Westin San Francisco Airport  
 1 Old Bayshore Highway  
 Millbrae, CA 94030  
 Telephone: (650) 692-3500  
 Facsimile: (650) 872-8174

**I. Call to Order.**

President Ronald Blanc called the meeting to order at 4:00 p.m. on Thursday, January 19, 2006, at the Westin San Francisco Airport in Millbrae and the meeting adjourned at 4:25 p.m. The Board was again called to order at 9:00 a.m. on Friday, January 20, 2006, and adjourned at 11:42 p.m.

Board MembersJanuary 19, 2006

Ronald Blanc, President	4:00 p.m. to 4:25 p.m.
David Swartz, Vice President	Absent
Ruben Davila, Secretary-Treasurer	4:00 p.m. to 4:25 p.m.
Richard Charney	4:00 p.m. to 4:25 p.m.
Donald Driftmier	4:00 p.m. to 4:25 p.m.
Sally Flowers	Absent
Sara Heintz	4:00 p.m. to 4:25 p.m.
Gail Hillebrand	4:00 p.m. to 4:25 p.m.
Thomas Iino	4:00 p.m. to 4:25 p.m.
Clifton Johnson	Absent
Bill MacAloney	4:00 p.m. to 4:25 p.m.
Olga Martinez	4:00 p.m. to 4:25 p.m.

Mr. Robinson thanked Ms. Hillebrand and the members of the committee for drafting a solution that solves the problem and expressed gratitude on the part of the profession. Mr. Robinson indicated that he was in total support and believes that the bill would solve the problem. He noted that he was available to assist in any of the pitfalls that may occur in the legislative process.

Mr. Blanc indicated that the Board has made this its priority and will do everything it can to move the proposed statute as quickly as possible. He also noted that the Board was privileged to have Mr. Tseng, former Board member, appear at the CPC meeting yesterday and that the information he provided was very helpful.

Ms. Tindel indicated that she was not free to communicate a position on this issue but generally supported solving the problem.

**It was moved by Dr. Charney, seconded by Ms. Martinez, and unanimously carried to approve the proposed statutory changes to Business and Professions Code Section 5050 as provided in the agenda item distributed that morning.**

4. Proposed Statutory Language Revising Business & Professions Code Section 5134 Related to Fees.

Ms. Hillebrand reported that this issue was discussed at the last Board meeting and staff were directed to prepare proposed statutory language that would do the following: 1) eliminate the statutory requirement that revenue generated by exam and initial licensure fees be sufficient to support the Board's cost of providing these services; 2) eliminate the language tying the practice privilege fee to the amount of the renewal fee; and 3) add legislative intent language that explains that, to ease entry into the profession, costs exceeding the revenue from exam and license issuance fees would be covered by revenue from renewal fees.

**It was moved by Mr. Driftmier, seconded by Ms. Heintz, and unanimously carried to approve the proposed statutory language. (See Attachment 5.)**

5. Proposed Amendments to Section 70 Related to Reducing Renewal Fees.

Ms. Hillebrand reported that the change in the renewal fee was necessary to reduce the reserve level to comply with the amount permitted by statute. She indicated that this was discussed at the Board's previous meeting, and staff were asked to provide a

recommendation. It was recommended that the renewal fee be reduced to \$120, and that the change be for a four-year period so that each licensee has an opportunity to participate in that two-year cycle. Ms. Hillebrand noted that there would be an automatic reset after the four-year period. She added that the numbers provided in the agenda packet do not include the repayment of the \$6.27 million loan.

Mr. Rich indicated that the projections show the months in reserve in the different fee scenarios based on a full expenditure of the Board's budget each year even though the Board generally does not fully expend its budget. **(See Attachment 6.)** He noted that these assumptions were used because the Department of Finance and the Department of Consumer Affairs use the same assumptions. Mr. Rich indicated that the projections do not account for the \$6.27 million to be returned or the potential for major enforcement outlays. He explained that the proposed fee reduction should leave the Board with eight months in reserve at the end of timeframe. Upon questioning, Mr. Rich indicated that there are statutory provisions in place so that if the Board experienced a budget shortfall, it could pursue repayment of the \$6.27 million loan.

Ms. Sos thanked Mr. Rich for his excellent work on this proposal. It was easy to understand, and she appreciated it.

**It was moved by Mr. Driftmier, seconded by Ms. Martinez, and unanimously carried to approve the proposed amendments to Section 70.**

D. Legislative Committee.

No report.

E. Enforcement Program Oversight Committee (EPOC).

1. Report on the January 19, 2006, EPOC Meeting.

Mr. Iino reported that EPOC met the previous day and discussed the following agenda items.

2. Consideration of What Acts and Crimes Should be Identified as Substantially Related to the Practice of Public Accountancy.

Mr. Iino reported that under current Section 99, a relatively minor act such as shoplifting is considered to be substantially related to the practice of public accountancy. A more egregious act such as rape

## Memorandum

CPC Agenda Item IV.  
January 19, 2006

Board Agenda Item IX.C.5.  
January 19 – 20, 2006

To : CPC Members  
Board Members

Date : January 4, 2006

Telephone : (916) 561-1780

Facsimile : (916) 263-3675

E-mail : drich@cba.ca.gov

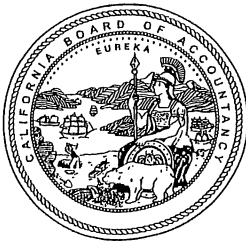
From : Dan Rich, Manager   
Administrative Services

Subject : Contingent Reserve Levels, Regulatory Changes

At its meeting of November 17 – 18, 2005 the Board made a decision to lower the biennial renewal fee for a period of time in order to reduce the Accountancy Fund reserve to mandated levels. To this end, staff were instructed to bring a proposal to the January 2006 Board Meeting, with a recommendation regarding the level at which the biennial renewal fee should be fixed to achieve the desired reduction in the reserve. This memorandum transmits a document titled "Issue Paper Regarding Mandated Level of the Accountancy Fund Reserve", which staff developed in response to the Board's directive.

Staff are recommending, through the attached Issue Paper, that the biennial renewal fee be lowered from its current \$200 level to \$120 for a four-year period, beginning January 1, 2007 and ending December 31, 2010. At the end of the four years, the biennial renewal fee should be restored to \$200. Included in the Issue Paper are the proposed regulatory changes needed to temporarily lower biennial renewal fees to the recommended level.

Attachment



## **CALIFORNIA BOARD OF ACCOUNTANCY**

### **ISSUE PAPER REGARDING MANDATED LEVEL OF THE ACCOUNTANCY FUND RESERVE**

January 4, 2006

#### **ISSUE**

Statutes governing the California Board of Accountancy (Board) require that the biennial renewal fee be set at a level so that, together with other revenues, "the reserve balance in the board's **contingent fund** shall be equal to approximately nine months of annual authorized expenditures". At the September 2005 Board meeting, the question was raised whether this "nine-month reserve" should be increased in order to enhance funding levels available to the Enforcement Program. Accordingly, the Board instructed staff to project how many "months of expenditures in reserve" might be needed to undertake two major cases simultaneously.

This information was delivered to the Board at the November 2005 Board meeting, at which time the decision was made to retain the current statutes which permit "nine months of expenditures" to be accumulated in the Accountancy Fund (Fund) contingent reserve. Consequently, it is now necessary to again look at the current Accountancy Fund reserve level, which well exceeds the stipulated nine months, and consider action to revise renewal fees for a period of time to bring reserve levels down.

This issue paper examines the impact on Fund reserves that result from setting the biennial renewal fee at three different levels, and recommends that the Board consider the following actions related to the renewal fee.

- Reduce the biennial renewal fee from the current \$200 level to \$120 for four years, effective January 1, 2007.
- Restore the biennial renewal fee to \$200 effective January 1, 2011.
- Be prepared to raise the biennial renewal fee earlier than January 1, 2011 should such action be necessary based on future staff assessment of contingency fund reserves.

Attachment 1 to this document depicts the regulatory language changes needed to implement the renewal fee revisions recommended above.

- In a number of fiscal years, the Board has under-spent its Enforcement Program budget by amounts ranging from \$1 million - \$2 million.
- In fiscal year 2002-03, the Board received an extraordinary payment of \$2.7 million in cost recovery funds.
- In FY 2002-03, the State borrowed \$6 million from Fund.
- In FY 2003-04, the State borrowed \$270,000 from the Fund.
- Computer-based testing for the CPA Examination has reduced expenditure levels by \$1.5 million over the past two years, and there is insufficient information to equate examination costs and revenues.
- The Board is to receive, at some unspecified future date, a return of \$6.27 million loaned to the State in FYs 2002-03 and 2003-04.

### ASSUMPTIONS AND CAVEATS

A number of variables must be considered when projecting Fund reserves, and the resultant "months of expenditures in reserve" (MIR) factor. Two such variables are projected expenditures and the projected revenues used in the computations. This analysis conforms to calculations consistently used by the Department of Consumer Affairs (DCA) and control agencies, which project reserve levels based on a presumption that a given agency will fully expend its budget each year.

Additionally, it should be noted that the same factors that have resulted in the Fund reserve being at its current elevated level may continue to affect the Fund balance in the future, and could offset the impact of any fee reductions approved by the Board. Those variables most likely to result in a large Fund reserve include high levels of cost recovery in the Enforcement Program, and savings from under-expenditure of budget authority.<sup>1</sup>

Calculations underlying the Accountancy Fund reserve projections rely on a three-year moving average to project workload and revenues. Other assumptions being built into the projections are as follows:

- There will be no increase in the Board's expenditure authority, which is contrary to methodology employed by the DCA, but appears reasonable given the offsetting assumption that the Board will fully expend its budget each year.
- Enforcement Program cost recovery revenues are not factored into projections, as there is no means to reasonably estimate these amounts.
- No revenue related to "undistributed candidate payments" from NASBA is being considered, as there is insufficient historical information upon which to accurately build projections.
- Repayment of the \$6.27 million that the State borrowed from the Accountancy Fund is not built into projections, as the Board has no way of knowing when it will be repaid.
- Fees collected by the Board for services to examination candidates and licensure applicants will remain fixed at their current levels.

---

<sup>1</sup> The Board's annual Enforcement Program budget for complex case matters is approximately \$2 million — a sum that is not always expended yearly. This amount is appropriated annually to provide the Board with budget flexibility to address any major enforcement matters that could not be anticipated. The absence of such a funding approach would preclude the Board from taking on the investigation and/or litigation of any major enforcement matter until after it pursued and obtained additional spending authority.

reduction plan, and provide additional projections to the Board should action be deemed necessary.

Staff's secondary recommendation would be Option R150, which also represents a viable approach to reducing the reserve to mandated levels over time. However, as indicated by the MIR information in Table 2 above, this Option R150 still leaves a larger reserve balance (10.4 MIR) than allowed by Section 5134(f), at the end of fiscal year 2007-08 – almost two full years into the reserve reduction strategy.

### **CONCLUSION**

Staff recommends that the Board take action to implement Option R120, in order to bring the Accountancy Fund into compliance with mandates stipulating contingency reserve levels. Staff believes that fixing the biennial renewal fee at \$120 will reduce the Accountancy Fund reserve at an acceptable rate, while simultaneously offering a degree of stability to the renewal fee. Also, though this option appears to reduce the reserve to a "near zero" MIR by the end of fiscal year 2009-10, staff believes that under-expenditure of budget authority, cost recovery revenues, and potential State repayment of borrowed funds over the next four years will likely increase the reserve from the amounts projected.

### **IMPLEMENTATION**

Lowering the biennial renewal fee can be accomplished through regulatory action, and sufficient time exists to enact this change by January 1, 2007.

**California Board of Accountancy  
Accountancy Fund Reserve Analysis  
January 2006**

**Attachment 2  
Status Quo  
\$200 Biennial Fee Level**

	<u>FY 2004-05 Actual</u>	<u>FY 2005-06 Projected</u>	<u>FY 2006-07 Projected</u>	<u>FY 2007-08 Projected</u>	<u>FY 2008-09 Projected</u>	<u>FY 2009-10 Projected</u>
<b>Beginning Reserve, July 1</b>	8,925,107	12,032,186	11,733,619	11,448,698	11,168,379	10,882,865
Prior Year Adjustments	<u>110,000</u>					
<b>Total Adjusted Reserve</b>	<u>9,035,107</u>	<u>12,032,186</u>	<u>11,733,619</u>	<u>11,448,698</u>	<u>11,168,379</u>	<u>10,882,865</u>
<b>Revenues</b>						
Fee-based + Other Revenues	9,363,315	9,421,628	9,442,739	9,454,463	9,456,277	9,451,160
Examination	[990,741] (d)	[997,200] (d)				
Initial Licensing	[782,450] (d)	[796,017] (d)				
Interest (a)	224,938	300,805	293,340	286,217	279,209	272,072
Cost Recovery	242,419					
<b>Total Revenues</b>	<u>9,830,672</u>	<u>9,722,433</u>	<u>9,736,079</u>	<u>9,740,680</u>	<u>9,735,486</u>	<u>9,723,232</u>
<b>Total Resources</b>	<u>18,865,779</u>	<u>21,754,619</u>	<u>21,469,698</u>	<u>21,189,379</u>	<u>20,903,865</u>	<u>20,606,097</u>
<b>Expenditures (b)</b>						
Total Expenditures (e)	6,859,804	10,040,000	10,040,000	10,040,000	10,040,000	10,040,000
Examination Costs	[728,252] (d)	[707,178] (d)				
Initial Licensing Costs (c)	[1,176,415] (d)	[1,407,961] (d)				
Less: Reimbursements (c)	<u>-26,211</u>	<u>-19,000</u>	<u>-19,000</u>	<u>-19,000</u>	<u>-19,000</u>	<u>-19,000</u>
<b>Total Expenses</b>	<u>6,833,593</u>	<u>10,021,000</u>	<u>10,021,000</u>	<u>10,021,000</u>	<u>10,021,000</u>	<u>10,021,000</u>
<b>Ending Reserve</b>	<b>12,032,186</b>	<b>11,733,619</b>	<b>11,448,698</b>	<b>11,168,379</b>	<b>10,882,865</b>	<b>10,585,097</b>
<b>Months in Reserve</b>	<b>14.4</b>	<b>14.1</b>	<b>13.7</b>	<b>13.4</b>	<b>13.0</b>	<b>12.7</b>

(a) Interest based on 2.5% of prior year ending balance

(b) Amounts for fiscal year 2004-05 represent actual expenditures. While it is not possible to accurately pinpoint expenditures in future years, projections consider past expenditure patterns for the Board and presume full expenditure of budgeted spending authority per methodologies used by DCA and DOF.

(c) Budgeted costs and reimbursements for fingerprinting have been eliminated from these computations.

(d) Revenues and expenditures for the examination function and initial licensing function are displayed for information purposes only.

(e) No increase is reflected in expenditure authority, which is contrary to methodology used by DCA, but appears reasonable given the offsetting assumption that the Board will fully expend its budget each year.

**California Board of Accountancy  
Accountancy Fund Reserve Analysis  
January 2006**

**Attachment 4  
Option R120  
\$120 Biennial Fee Level**

**Fee Change Effective January 1, 2007**

	FY 2004-05 Actual	FY 2005-06 Projected	FY 2006-07 Projected	FY 2007-08 Projected	FY 2008-09 Projected	FY 2009-10 Projected
<b>Beginning Reserve, July 1</b>	8,925,107	12,032,186	11,733,619	10,122,318	7,156,105	4,117,334
Prior Year Adjustments	110,000					
<b>Total Adjusted Reserve</b>	<u>9,035,107</u>	<u>12,032,186</u>	<u>11,733,619</u>	<u>10,122,318</u>	<u>7,156,105</u>	<u>4,117,334</u>
<b>Revenues</b>						
Fee-based + Other Revenues	9,363,315	9,421,628	8,116,359	6,801,729	6,803,326	6,798,345
Examination	[990,741] (d)	[997,200] (d)				
Initial Licensing	[782,450] (d)	[796,017] (d)				
Interest (a)	224,938	300,805	293,340	253,058	178,903	102,933
Cost Recovery	242,419					
<b>Total Revenues</b>	<u>9,830,672</u>	<u>9,722,433</u>	<u>8,409,699</u>	<u>7,054,787</u>	<u>6,982,229</u>	<u>6,901,278</u>
<b>Total Resources</b>	<u>18,865,779</u>	<u>21,754,619</u>	<u>20,143,318</u>	<u>17,177,105</u>	<u>14,138,334</u>	<u>11,018,612</u>
<b>Expenditures (b)</b>						
Total Expenditures (e)	6,859,804	10,040,000	10,040,000	10,040,000	10,040,000	10,040,000
Examination Costs	[728,252] (d)	[707,178] (d)				
Initial Licensing Costs (c)	[1,176,415] (d)	[1,407,961] (d)				
Less: Reimbursements (c)	-26,211	-19,000	-19,000	-19,000	-19,000	-19,000
<b>Total Expenses</b>	<u>6,833,593</u>	<u>10,021,000</u>	<u>10,021,000</u>	<u>10,021,000</u>	<u>10,021,000</u>	<u>10,021,000</u>
<b>Ending Reserve, June 30</b>	<b>12,032,186</b>	<b>11,733,619</b>	<b>10,122,318</b>	<b>7,156,105</b>	<b>4,117,334</b>	<b>997,612</b>
<b>Months in Reserve</b>	<b>14.4</b>	<b>14.1</b>	<b>12.1</b>	<b>8.6</b>	<b>4.9</b>	<b>1.2</b>

(a) Interest based on 2.5% of prior year ending balance

(b) Amounts for fiscal year 2004-05 represent actual expenditures. While it is not possible to accurately pinpoint expenditures in future years, projections consider past expenditure patterns for the Board and presume full expenditure of budgeted spending authority per methodologies used by DCA and DOF.

(c) Budgeted costs and reimbursements for fingerprinting have been eliminated from these computations.

(d) Revenues and expenditures for the examination function and initial licensing function are displayed for information purposes only.

(e) No increase is reflected in expenditure authority, which is contrary to methodology used by DCA, but appears reasonable given the offsetting assumption that the Board will fully expend its budget each year.